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TO: Distribution

DATE: August 14, 1987

FROM: Rick Stirlen

SUBJECT: Market Check - Orlando - August 11, 1987

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The following are my observations on the development of Magna, Cambridge and Capri based on a market visit to Orlando on August 11. The overall purpose of the visit was to work down-the-street with a Sales Representative to develop ideas to incorporate into 1988 brand plans. These ideas and insights will be presented as a group recommendation under separate cover. Also, since the usual 20 to 30 calls made during an audit were not contacted, all share observations should be interpreted with caution.

BACKGROUND

Based on continued solid population growth (4 times national average) Orlando is a unique cigarette market with industry volume up over 15%. As might be expected the market is dominated by (chain) supermarket, convenience and convenience/gas outlets with these trade classes responsible for 71% of all volume.

In this market, Philip Morris performs very well with a 41.1 SOM - 110 SDI (R. J. Reynolds 35.1 SOM - 107 SDI). Marlboro (25.1 SOM - 108 SDI), Benson & Hedges (6.9 SOM - 162 SDI) and Virginia Slims (3.5 SOM - 120 SDI) all perform well above average.

Although total generic market share is only 6.9% (95 SDI), it is important to note that both branded generics and value 25's do extremely well with 4.7 and 2.0 SOM's and 151 and 116 SDI's respectively.

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MAGNA

Magna was very visible in the market and reflected the in-store presence typical of a major RJR launch.

Sales

- o Movement was spotty and ranged from occasional packs in a medium volume convenience store to a consistent 3.0 SOM in one high volume gas/convenience outlet.
- o A recent market check in Tampa estimated share at 1.6, but this appears high for Orlando. My overall estimate would be closer to 1.0 and declining as promotional offers expire and smokers return to their normal brands.
- o While some retailers commented that a portion of their Marlboro smokers had tried Magna during the heavy deal period, the actual Marlboro conversion rate does not appear out of line with its contribution to value products. Winston is another (major) contributor to Magna volume along with Doral, Cambridge and other generic products.

Distribution/Visibility

- o Distribution was 100% on all packings with adequate depth of inventory in all accounts.
- o In-store visibility was excellent with permanent pack displays and overhead merchandiser support in virtually all accounts.
- o No outdoor support was observed.

Other Comments

- o Promotional activity was winding down with no BIGIF offers visible and only sporadic two-pack sunglass offers and dollar-off coupons.
- o Overall, I would not say that Magna presents a serious current threat to Marlboro. In developing the graphics/image for the brand it appears RJR may have appealed to too young a smoker group with their almost cartoon approach (this was mentioned by two retailers as well). However, the very solid distribution and visibility should make this a viable branded generic competitor and we must stay alert to brand development - especially the box packing.

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CAMBRIDGE

Orlando is a high potential Cambridge market and therefore the brand is receiving a second month of primary retail support and promotion. Since both 25¢ pack and \$2.00 carton coupon offers were running, it is difficult to estimate share. However, there is no question that these offers plus the addition of the full flavor packings has established Cambridge as a viable contender to Doral. Retailers report that the promotions have caused a number of the Doral smokers to try Cambridge and some conversion has been noted.

Distribution/Visibility

- o Cambridge has excellent visibility on the entire B-unit and a number of accounts also featured the brand on a BV unit. The importance of this prominent counter display is significant not only to visibility and trial, but also in establishing Cambridge as a mainstream brand in the minds of consumers and retailers.
- o The use of the B-unit has allowed the Sales Force to gain excellent distribution of Cambridge Full Flavor and also fill distribution gaps on Lights.
- o The Cambridge Full Flavor package provides a strong visual complement to Lights and I believe makes the entire brand family appear more mainstream. This may provide sales momentum for both packings.
- o Only one Cambridge outdoor board was seen.

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Other Comments

- 0 The addition of the Full Flavor packings and the use of the B-unit has provided important momentum and positioned the brand as a viable competitor to Doral, Magna and the other generics. However, based on the emphasis RJR is placing on its brands, other activity in the segment and the fickle nature of the generic smoker, it is critical that we maintain follow-up support behind the brand to maximize its potential.

CAPRI

After having followed the progress of Capri in Louisiana and worked closely on our own ultra thins options, I was surprised with the Capri support I observed.

At least in the area I visited, Capri was virtually invisible. Less than 50% of the calls had both packings in stock with the remainder having only Menthol.

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I saw only one counter pack display and no POS. Retailers reported some product movement, but due to the lack of (recent) support, movement was spotty and share impossible to estimate.

Indications are that B&W is having some Sales Force turnover problems in Orlando so this may have contributed to the poor visibility. Also, there were no indications that B&W had used the "crew" concept during the introduction in this market. Finally, the brand is coming off its initial promotional push. In any case, I could not substantiate a share level close to the 1.1 recently reported from Tampa.

As an overall observation, there is no question that Orlando is currently dominated by price offers. A visitor from another world would likely return home with the impression that the U.S. cigarette industry is involved in major price competition between the three largest brands - Doral, Cambridge and Magna, along with much less visible Malibu and Falcon.

While I am stretching the point a bit, the tremendous price activity at retail cannot help but educate all smokers to the price issue. We can no doubt compete effectively in this area with Cambridge, but we must also find ways to provide ongoing Marlboro support and visibility. So far Marlboro has exhibited a resilience to price pressure, but this will only continue if we can maintain a strong leadership/value-added posture in the market.

Available for questions or further discussion.



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